381. Rollins also commented:

> [I]f you follow the consumer PC business for years after years, there's companies that come in, they drop price, they grow rapidly, they may gain share, and then they go out of business in about 2 years. So we've decided that's not a long-term sustainable and desirable strategy. So we're going to be focused very carefully on profitable business, and if it becomes a nonprofitable segment we'll shift our focus into those segments, and grow faster than the ones that are profitable.

382. During the Q2 2005 Earnings Call, Defendant Michael Dell stated: "[I]f you look over the last 7 or 8 years desktops have kind of continued to shrink as we've added more and more product lines. But the desktop business itself at Dell continues to be very healthy in terms of revenue growth, profit growth, it's a great, healthy business."

383. Rollins added that: "We're going to stay aggressive with all of our pricing. The typical Dell effect moves into category after category, that's kind of what we try to do is bring greater value to customers. That's just the way we operate, and you can assume that will continue."

384. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's financial results and performance were false and misleading when made because Dell's reported results were based on misstated net revenue, operating income, net income, earnings per share and gross margin figures. As admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements."

The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon. Finally, the Defendants concealed that Dell's growth strategy depended on continuing the fraudulent activity which led to the misstatement of its financial reports.

3. Rollins States that Dell's Performance Will Be in Line with Wall Street Estimates

385. On August 13, 2004, *Business and Finance Daily News Service* reported that:

> Kevin Rollins, Dell's chief executive officer, said he expects Dell to post a third-quarter profit of 33 cents a share on USD12.5bn in revenue, in line with Wall Street analysts' current forecasts. It was Dell's first quarterly report under Rollins, who took over the CEO post from founder Michael Dell on July 16. Speaking on a conference call with reporters, Rollins emphasised [sic] how Dell can seemingly buck the trend that has seen many tech companies post weak results and give cautious forecasts in recent weeks. Rollins said Dell's global product shipments rose 19pc from the same quarter a year ago, while server shipments grew 31pc. Notebook computers were also a major growth area, as Dell said shipments rose 28pc from a year earlier.

386. Defendant Rollins knew, or recklessly disregarded, that the above statements concerning Dell's financial results and performance were false and misleading when made because Dell's reported results were based on misstated net revenue, operating income, net income, earnings per share and gross margin figures. As admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are

inaccurate and should no longer be relied upon. Moreover, Rollins knew or was reckless in not knowing that the Company was only able to meet guidance figures because it manipulated its reported figures as described herein. Finally, Rollins concealed that Dell's growth strategy depended on continuing the fraudulent activity which led to the misstatement of its financial reports.

4. Second Quarter 2005 10-Q

387. On September 7, 2004, Dell filed its Form 10-Q for the quarter ended July 30, 2004 ("Q2 2005 10-Q"). The Q2 2005 10-Q repeated the following false and misleading information from the Company's Q2 2005 Earnings Release:

	In Millions of Dollars (except per share data)
Net Revenue	$11,706
Operating Income	$1,006
Net Income	$799
Earning Per Share (Diluted)	$.31
Gross Margin	$2,134
Total Stockholders' Equity	$6,207
Total Liabilities	$13,725

388. The Q2 2005 10-Q also stated:

> Net revenue increased 20% year-over-year to a ***record*** $11.7 billion and operating expenses remained at a record low 9.6% of net revenue. During the second quarter, Dell achieved quarterly operating income that exceeded $1.0 billion for the first time, as Dell continues to focus on growth in its most profitable products, regions, and customer segments. During the six months ended July 30, 2004, Dell delivered strong liquidity with cash flows from operations of $1.7 billion and ended the quarter with cash, cash equivalents, and investments of $11.8 billion.
>
> Dell's low-cost structure and efficient direct-to-customer model have enabled the company to consistently achieve year-over-year market share growth while maximizing operating profitability.

(emphasis added).

389. The Q2 2005 10-Q commented on reported revenue as follows:

> Net revenue was a record $11.7 billion for the second quarter of fiscal 2005, an increase of $1.9 billion or 20% from the same quarter last year. Net revenue increased to $23.2 billion for the six months ended July 30, 2004, from $19.3 billion for the six months ended August 1, 2003. The year-over-year increase was led by strong net unit growth across all regions and product lines. Dell's net unit growth continued to outpace the market with consolidated net unit shipments increasing 19% year-over-year while the industry increased only 15% for the calendar quarter. During the quarter, Dell continued to optimize its financial results with a disciplined focus on profitable growth as Dell's average revenue per-unit sold remained relatively constant year-over-year.

390. In terms of Dell's performance in Japan, the Q2 2005 10-Q stated:

> Asia Pacific-Japan — Dell generated year-over-year personal computer market share gains in Asia Pacific-Japan of approximately 1.1 share points to 8.5% market share for the calendar quarter and the No. 2 share position. Net unit shipments grew 28% year-over-year during the second quarter, in a market that increased only 15% for the calendar quarter. Year-over-year net revenue growth during the three and six months ended July 30, 2004 was 29% and 30%, respectively. This increase included combined year-over-year net revenue growth in the focus countries of China and Japan of 21% and 23% during the three and six months ended July 30, 2004, respectively.

391. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing

statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

392. The Q2 2005 10-Q stated the following about Dell's adherence to GAAP:

> The accompanying unaudited condensed consolidated financial statements of Dell Inc. ("Dell") should be read in conjunction with the consolidated financial statements and notes thereto filed with the U.S. Securities and Exchange Commission (the "SEC") in Dell's Annual Report on Form 10-K for the fiscal year ended January 30, 2004. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of Dell and its consolidated subsidiaries as of July 30, 2004 and January 30, 2004 and the results of its operations for the three and six months ended July 30, 2004 and August 1, 2003, and cash flows for the six months ended July 30, 2004 and August 1, 2003.

393. Defendants knew, or recklessly disregarded, that the Company's statements concerning Dell's adherence to GAAP were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." Moreover, Dell's restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

394. The Q2 2005 10-Q also included the following warranty-related information:

NOTE 5 — AGGREGATE DEFERRED REVENUE AND WARRANTY LIABILITY

Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its basic limited warranty. Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Changes in Dell's aggregate deferred revenue and warranty liability are presented in the following table:

	Six Months Ended	
	July 30, 2004	August 1, 2003
	(in millions)	
Aggregate deferred revenue and warranty liability, at beginning of period	$2,694	$2,042
Revenue deferred and costs accrued for new warranties	1,480	1,221
Service obligations honored	(557)	(464)
Amortization of deferred revenue	(585)	(419)
Aggregate deferred revenue and warranty liability, at end of period	$3,032	$2,380

395. Defendants knew, or recklessly disregarded, that these statements were false and misleading when made because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

396. Dell also stated the following about the Company's controls:

> The management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Dell's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Dell's disclosure controls and procedures are effective in enabling Dell to record, process, summarize, and report information required to be included in Dell's periodic SEC filings within the required time period.
>
> In addition, the management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in Dell's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the period covered by this Report. Based on that evaluation, Dell's Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in Dell's internal control over financial reporting during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, Dell's internal control over financial reporting.

397. The Defendants knew, or recklessly disregarded, that the foregoing statements regarding the effectiveness of Dell's controls were materially false and misleading when made. As admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

398. The Q2 2005 10-Q also included signed certifications from Defendants Rollins and Schneider stating:

> 1. I have reviewed this Quarterly Report on Form 10-Q of Dell Inc.;
>
> 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
>
> 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
>
> 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
>
> > (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
> >
> > (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
> >
> > (c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
>
> 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
>
> > (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

> (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

399. Rollins and Schneider also filed certifications pursuant to 18 U.S.C. §1350, "that (a) Dell's Quarterly Report on Form 10-Q for the quarter ended July 30, 2004, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Dell."

400. Rollins and Schneider knew, or recklessly disregarded, that the statements contained in their signed certifications filed with the Q2 2005 10-Q were materially false and misleading when made because, as admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting. Additionally, Rollins and Schneider's Section 1350 certifications were false because Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

L. Third Quarter 2005 (For The Quarter Ended October 29, 2004)

1. Third Quarter 2005 Earnings Release

401. On November 11, 2004 Dell issued an earnings release announcing its financial results for the quarter ended October 29, 2004 (the "Q3 2005 Earnings Release"). The Q3 2005 Earnings Release, which was also filed as an exhibit to Form 8-K, contained the following false and misleading financial information relating to the Company's third quarter results:

	In Millions of Dollars (except per share data)
Net Revenue	$12,502
Operating Income	$1,095
Net Income	$846
Gross Margin	$2,313
Stockholders' Equity	$5,880
Total Liabilities	$15,174

402. Furthermore, in the Q3 2005 Earnings Release, Defendant Rollins falsely and misleadingly stated: "The record quarter is testament to the company's superb team executing a better business model. . . . An improving component cost environment further favors Dell, with customers and shareholders the primary beneficiaries. . . . Dell's disciplined focus on profitable growth around the world and across businesses continues to differentiate us in the market. We've been doing that for years."

403. Dell also stated:

> According to Mr. Rollins, Dell's fourth-quarter product shipments should be about 20 percent higher than in the same year-ago period. Such growth is expected to produce quarterly revenue of about $13.5 billion, up 17 percent, and earnings per share of 36 cents, a 24-percent increase.
>
> In the third quarter, Dell's operating profit improved to 8.8 percent of revenue, the company's highest rate in four years. The company generated a record $1.8 billion in cash from operations, and total cash and investments rose to $12.4 billion.

404. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

405. In commenting on its results in Japan, the Q3 2005 Earnings Release stated, "In Asia-Pacific and Japan (APJ), company-shipment growth of 25 percent was nearly three times the rate of the market excluding Dell. Revenue from enterprise systems, including servers and storage, increased 27 percent."

406. Defendants also knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

2. **Third Quarter 2005 Earnings Conference Call**

407. On November 11, 2004, Dell held a conference call to discuss third quarter FY 2005 earnings ("Q3 2005 Earnings Call"). A transcript of the Q3 2005 Earnings Call, which was attended by Michael Dell, Rollins, and Schneider, was attached as an exhibit to a Form 8-K filed by the Company.

408. During the Q3 2005 Earnings Call, Defendant Schneider stated:

> We're extremely pleased with our overall performance and the team's execution during the third quarter. We leveraged the unique strengths of our model to deliver enhanced profitability and record performances across our business. Let me list a few.
>
> Product shipments, revenue, operating and net income, EPS, cash flow from operations, share repurchase, and total cash and investments were all Company records. And we established an industry record with 8 million units shipped in a quarter, increasing our number 1 worldwide systems market share by 1.2 points year-over-year to 18.1 percent.
>
> * * *
>
> Turning to our financials, we had industry leading performances across the board. We delivered EPS of 33 cents, an increase of 27% year over year on $12.5 billion in revenues and unit growth of 22%. Our operating margins grew to 8.8%, up 20 basis points sequentially and 40 basis points since the first quarter. We drove this enhanced profitability while making investments to support our anticipated growth and improve our customer support capabilities.
>
> * * *
>
> In Asia Pacific and Japan we delivered strong results as units grew 25% year-over-year, almost 3 times faster than the rest of the market with similar revenue growth. Our market share expanded by over 1 point year-over-year and we are now less than 1.5 points from the regional leader.
>
> * * *
>
> Turning to Dell, we're forecasting revenues of $13.5 billion, up 8 percent sequentially and 17 percent year-over-year. Units should be up about 13 percent sequentially and approximately 20 percent versus last year.

409. Defendant Rollins followed Schneider, stating:

> For the 15th consecutive quarter we met or beat our guidance to investors. We remain committed to our strategy of profitable growth, balancing revenue and market share gains with enhanced profitability regardless of the environment. As a result Dell's operating profits and earnings per share again grew faster than revenue with our operating margin at its highest level in 4 years.
>
> With the third quarter run rate of 50 billion, we're now almost a full year ahead of our $60 billion objective.

410. During the Q&A portion of the call, Rollins responded to a question about Dell's goal to achieve $60 billion in revenue by stating:

> [t]he comment was in general as we've looked at our original 5-year, doubles the size of the Company, it would have suggested that we would have hit approximately a $60 billion number a couple of years out.
>
> I think you can see now with the numbers for this year and the guidance we've giving for Q4, we're getting a lot closer to even a $50 billion number this year, which suggests we're going to get a lot closer to 60 in the coming year than we had thought 3 years ago.
>
> Our trajectory in growth revenue has been in the 18 to 20 percent range on and off throughout this year quarter-to-quarter. We don't see any reason to believe that the trajectory of our growth rate is going to slow or change a lot. In fact, the component environment has gotten more favorable for us this quarter, and we think for Q4 as well. So given that, our confidence in hitting some pretty good numbers is increasing.

411. Also, responding to a question about Dell's ability to meet expectations, Rollins stated, "we're trying to hit numbers by putting up good, solid guidance and then meet that guidance. And if we can do that with slightly improved profitability with our goal of getting to the 9% to 10% op[erating] inc[ome] range, that's what we're going to do."

412. In ending the call, Rollins stated:

> Our third quarter again demonstrated the ability of Dell's model to utilize visibility throughout the value chain to optimize overall growth and profitability. These structural advantages allowed us to drive improved profitability combined with unit and revenue growth during the quarter.

> Going forward we will continue to innovate and grow in key areas of our business between the enterprise, international, and printing. This disciplined focus on growth combined with our differentiated business model will deliver both superior value for customers and returns on capital for our shareholders.

413. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

414. Schneider knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions." Finally, the Defendants concealed that Dell's growth strategy depended on continuing the fraudulent activity which led to the misstatement of its financial reports.

3. Third Quarter 2005 10-Q

415. On December 1, 2004, Dell filed its Form 10-Q for the quarter ended October 29, 2004 ("Q3 2005 10-Q"). The Q3 2005 10-Q repeated the following false and misleading financial information set forth in the Company's Q3 2005 Earnings Release:

	In Millions of Dollars (except per share data)
Net Revenue	$12,502
Operating Income	$1,095
Net Income	$846
Gross Margin	$2,313
Total Stockholders' Equity	$5,880
Total Liabilities	$15,174

416. The Q3 2005 10-Q also stated:

During the quarter, Dell's net revenue grew 18% year-over-year to a record $12.5 billion, increasing the company's worldwide PC market share by 1.1 points to 18.0% for the calendar quarter. Dell maximized its operating profitability with operating income increasing 20% year-over-year to a record $1.1 billion. Dell's gross profit margin of 18.5% and operating margin of 8.8% reached the highest levels in four years. During the nine months ended October 29, 2004, Dell delivered strong liquidity with cash flows from operations of $3.5 billion and ended the quarter with record cash, cash equivalents, and investments of $12.4 billion.

417. The Q3 2005 10-Q stated the following about Dell's reported net revenue:

During the third quarter of fiscal 2005, Dell's net unit growth continued to outpace the market with consolidated net unit shipments increasing 22% year-over-year while the total industry increased only 13% for the calendar quarter. Net revenue reached a record $12.5 billion for the third quarter of fiscal 2005, an increase of $1.9 billion or 18% from the same quarter last year. Net revenue increased to $35.7 billion for the nine months ended October 29, 2004, from $29.9 billion for the nine months ended October 31, 2003. The consolidated year-over-year net unit and revenue increase was led by strong growth across all regions and product lines, particularly in the European region and Dell's notebook product group.

418. The Q3 2005 10-Q stated the following about Dell's reported gross margins:

Gross margin as a percentage of net revenue increased to 18.5% during the third quarter of fiscal 2005, compared to 18.2% during the third quarter of fiscal 2004. Gross margin was 18.2% for the nine months ended October 29, 2004, consistent

with the same period last year. During the third quarter of fiscal 2005, management utilized component cost declines to achieve profitable market share growth as the cost environment improved.

419. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

420. As for Dell's operations in Japan, the Q3 2005 10-Q stated:

> Dell generated year-over-year personal computer market share gains in Asia Pacific-Japan of approximately 1.0 share point to 8.1% market share for the calendar quarter and the No. 3 share position. Net unit shipments grew 25% and 30% year-over-year during the three and nine months ended October 29, 2004, respectively, in a market that increased only 11% for the calendar quarter. Year-over-year net revenue growth during the three and nine months ended October 29, 2004 was 24% and 28% respectively. This increase included combined year-over-year net revenue growth in the focus countries of China and Japan of 19% and 22% during the three and nine months ended October 29, 2004, respectively.

421. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were

certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

422. The Q3 2005 10-Q stated the following about Dell's adherence to GAAP:

> The accompanying unaudited condensed consolidated financial statements of Dell Inc. ("Dell") should be read in conjunction with the consolidated financial statements and notes thereto filed with the U.S. Securities and Exchange Commission ("SEC") in Dell's Annual Report on Form 10-K for the fiscal year ended January 30, 2004. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of Dell and its consolidated subsidiaries as of October 29, 2004 and January 30, 2004; and the results of its operations for the three and nine months ended October 29, 2004 and October 31, 2003.

423. Defendants knew, or recklessly disregarded, that the Company's statements concerning Dell's adherence to GAAP were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." Moreover, Dell's restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

424. The Q3 2005 10-Q further stated:

NOTE 5 — AGGREGATE DEFERRED REVENUE AND WARRANTY LIABILITY

Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its basic limited warranty. Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. As of October 29, 2004, the current and non-current portions of deferred revenue each totaled $1.3 billion, and are recorded in other current and non-current liabilities on Dell's condensed consolidated statement of financial position. Changes in Dell's aggregate deferred revenue and warranty liability are presented in the following table:

	Nine Months Ended	
	October 29, 2004	October 31, 2003
	(in millions)	
Aggregate deferred revenue and warranty liability, at beginning of period	$2,694	$2,042
Revenue deferred and costs accrued for new warranties	2,420	1,896
Service obligations honored	(846)	(726)
Amortization of deferred revenue	(946)	(658)
Aggregate deferred revenue and warranty liability, at end of period	$3,322	$2,554

425. Defendants knew, or recklessly disregarded, that these statements were false and misleading when made because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

426. Dell also stated the following about the Company's controls:

> The management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Dell's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Dell's disclosure controls and procedures are effective in enabling Dell to record, process, summarize, and report information required to be included in Dell's periodic SEC filings within the required time period.
>
> In addition, the management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in Dell's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the period covered by this report. Based on that evaluation, Dell's Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in Dell's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, Dell's internal control over financial reporting.

427. The Defendants knew, or recklessly disregarded, that the foregoing statements regarding the effectiveness of Dell's controls were materially false and misleading when made. As admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

428. The Q3 2005 10-Q also included signed certifications from Rollins and Schneider stating:

> 1. I have reviewed this Quarterly Report on Form 10-Q of Dell Inc.;
>
> 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
>
> 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
>
> 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
>
> > (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
> >
> > (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the

effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

429. Rollins and Schneider also filed certifications pursuant to 18 U.S.C. §1350, "that (a) Dell's Quarterly Report on Form 10-Q for the quarter ended October 29, 2004, as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (b) information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Dell."

430. Rollins and Schneider knew, or recklessly disregarded, that the statements contained in their signed certifications filed with the Q3 2005 10-Q were materially false and misleading when made because, as admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge

given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting. Additionally, Rollins and Schneider's Section 1350 certifications were false because Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

M. Fourth Quarter 2005 (For The Quarter Ended Jan 28, 2005)

1. Fourth Quarter 2005 Earnings Release

431. On February 10, 2005, Dell issued an earnings release announcing its financial results for the quarter and full year ended January 28, 2005 (the "Q4 2005 Earnings Release"). The Q4 2005 Earnings Release, which was also filed as an exhibit to Form 8-K, contained the following false and misleading financial information relating to the Company's fourth quarter results:

	In Millions of Dollars (except per share data)
Net Revenue	$13,457
Operating Income	$1,187
Pro Forma Net Income	$947
Net Income	$667
Pro Forma Earnings Per Share	$.37
Earnings Per Share	$.26
Gross Margin	$2,495
Stockholders' Equity	$6,485
Total Liabilities	$16,730

(tax change footnote omitted)

432. The Q4 2005 Earnings Release also announced the following as Dell's results for the 2005 fiscal year:

	In Millions of Dollars (except per share data)
Net Revenue	$49,205
Operating Income	$4,254
Pro Forma Net Income	$3,323
Net Income	$3,043
Pro Forma Earnings Per Share	$1.29
Earnings Per Share (Diluted)	$1.18
Gross Margin	$9,015

(tax change footnote omitted)

433. The Q4 2005 Earnings Release stated the following about Dell's reported results:

> Strong growth throughout Dell's diversified range of products and services in the fiscal fourth-quarter 2005 led to the company's best ever operating period. The company achieved quarterly records for revenue, unit shipments, operating income and cash flow from operations.
>
> Sales increased 22 percent in Europe, the Middle East and Africa, and 21 percent in Asia-Pacific and Japan. Worldwide revenue growth from servers and storage systems accelerated from the last quarter, increasing 20 percent year-over-year. In the United States, sales to business customers grew 19 percent year-over-year.
>
> Revenue for the quarter ended Jan. 28 was $13.5 billion, up 17 percent from a year ago. Pro-forma fourth-quarter net earnings were 37 cents per share, 28 percent higher than last year. That exceeded Dell's guidance by one cent, as continued strong profit growth in markets outside the United States reduced the company's operating tax rate.
>
> Dell's fourth-quarter reported earnings were $667 million, or 26 cents per share.

434. The Q4 2005 Earnings Release also included the following comments from Defendant Rollins:

> "The quarter represents continued record performance by our team around the world. . . . No one has higher expectations for Dell over time than we do, and we're constantly driving for excellence on behalf of customers and shareholders."
>
> Mr. Rollins said the company expects Dell first-quarter fiscal-2006 product shipments to increase 21 percent. The resulting company volumes should produce quarterly revenue of about $13.4 billion, up 16 percent from the prior year, and earnings per share of about 37 cents, up 32 percent.
>
> In the fourth quarter, Dell's operating margins improved to 8.8 percent, up from 8.5 percent a year ago. The company generated $1.8 billion in cash flow from operations, and total cash and investments at quarter-end was $14.1 billion, a

company record.

435. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

436. In terms of Dell's performance in Japan, the Q4 2005 Earnings Release stated:

> In Asia-Pacific and Japan, total Dell shipments increased 27 percent – nearly three times the growth rate excluding Dell – highlighted by a 29-percent gain in notebook computer volumes.
>
> Unit shipments for the full year increased 29 percent, while revenue was up 26 percent.

437. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The

impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

2. Fourth Quarter 2005 Earnings Conference Call

438. On February 10, 2005, Dell held a conference call to discuss the Company's fourth quarter FY 2005 earnings ("Q4 2005 Earnings Call"). On the Q4 2005 Earnings Call a Dell representative misleadingly stated: "Since 2001 we have grown our worldwide and U.S. share by over 40 percent to almost 18 percent and over 33 percent respectively. While improving our operating margins by 130 basis points. In contrast, companies relying on inefficient business models will continue to pursue profitless share gains through acquisitions or intense competitive moves, a strategy proven to be unsustainable in our sector. While it is a struggle, ***Dell continues to grow profitably***." (emphasis added).

439. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's growth were false and misleading when made because Dell's purported growth was based on misstated net revenue, operating income, net income, earnings per share and gross margin figures. As admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

3. 10-K for the Year Ended January 28, 2005

440. On March 8, 2005, Dell filed its Form 10-K for the year ended January 28, 2005 ("2005 10-K"). The 2005 10-K, which was signed by, *inter alia*, Michael Dell, Rollins, and Schneider, contained the following false and misleading financial information for the 2005 fiscal year:

	In Millions of Dollars (except per share data)
Total Net Revenue	$49,205
Total Operating Income	$4,254
Net Income	$3,043
Earning per Share (diluted)	$1.18
Gross Margin	$9,015
Stockholder Equity	$6,485
Total Liabilities	$16,730

441. Commenting on Dell's reported numbers, the 2005 10-K stated:

> During fiscal 2005, Dell maintained its position as the world's number one supplier of personal computer systems with performance that continued to outpace the industry. . . . Consolidated net revenue increased 19% to $49.2 billion during fiscal 2005, with Dell's strong international performance being a key driver of this growth even as the company expanded its number one position in the U.S. . . . Dell's focus on balancing growth and profitability resulted in record operating and net income of $4.3 billion and $3.0 billion, respectively.
>
> * * *
>
> Dell's objective is to maximize stockholder value while maintaining a balance of three key financial metrics: liquidity, profitability, and growth. Dell's strategy combines its direct business model with a highly efficient manufacturing and supply chain management organization and an emphasis on standards-based technologies. Dell's business model provides the company with a constant flow of information about trends in customers' plans and requirements.

442. The 2005 10-K reported the following with respect to Dell's reported net revenue figures:

> During fiscal 2005, Dell's strategy and execution extended the company's number one worldwide position for the calendar year. Dell produced net revenue of $49.2 billion in fiscal 2005, compared to $41.4 billion in fiscal 2004 and $35.4 billion in fiscal 2003. The year-over-year increases in net revenue during both fiscal 2005

and 2004 were driven by strong unit growth across most regions and product lines. Specifically, Dell's Europe and Asia Pacific-Japan segments produced revenue growth in excess of 25% during fiscal 2005, while notebooks produced consolidated revenue growth of 24%. During fiscal 2005, Dell's net unit growth continued to exceed industry growth as consolidated net unit shipments increased 21% while total PC industry growth increased only 15% for the calendar year. During fiscal 2004, Dell produced net unit growth of 26%, while the total PC industry increased only 12% for the calendar year.

443. As for Dell's reported gross margin, the Company stated:

Gross margin as a percentage of net revenue improved slightly to 18.3% during fiscal 2005, compared to 18.2% fiscal 2004 and 17.9% in fiscal 2003. The year-over-year improvement during fiscal 2005 and 2004 was primarily driven by Dell's continued cost savings initiatives.

* * *

Management believes that the strength of Dell's direct business model, as well as its strong liquidity position, makes Dell better positioned than its competitors to continue profitable growth in any business climate.

444. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

445. Dell stated the following about its revenue recognition practices:

> Dell frequently enters into sales arrangements with customers that contain multiple elements or deliverables such as hardware, software, peripherals, and services. Judgments and estimates are critical to ensure compliance with GAAP. These judgments relate to the allocation of the proceeds received from an arrangement to the multiple elements, the determination of whether any undelivered elements are essential to the functionality of the delivered elements, and the appropriate timing of revenue recognition. Dell offers extended warranty and service contracts to customers that extend and/or enhance the technical support, parts, and labor coverage offered as part of the base warranty included with the product. Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Revenue from sales of third-party extended warranty and service contracts, for which Dell is not obligated to perform, is recognized on a net basis at the time of sale.
>
> Estimates that further impact revenue recognition relate primarily to customer sales returns and allowance for doubtful accounts. Both estimates are relatively predictable based on historical experience. The primary factors affecting Dell's accrual for estimated customer returns include estimated return rates as well as the number of units shipped that still have a right of return as of the balance sheet date. During recent fiscal years, customer returns as a percentage of revenues have declined to approximately 1%. Factors affecting Dell's allowance for doubtful accounts include historical and anticipated customer default rates of the various aging categories of accounts receivable. Each quarter, Dell reevaluates its estimates to assess the adequacy of its recorded accruals for customer returns and allowance for doubtful accounts and adjusts the amounts as necessary.

446. Defendants knew, or recklessly disregarded, that this statement was false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means."

447. As for Dell's performance in Japan, the 2005 10-K stated:

> Asia Pacific-Japan — Dell's strong revenue growth in Asia Pacific-Japan of 26% during fiscal 2005 was supported by the company's strength and demand growth in China. During calendar 2004, Dell generated share gains in Asia Pacific-Japan of 1.1 percentage points to 8.3% share of personal computer sales, achieving the number three share position. During fiscal 2005, Dell's net unit growth was 29%, in an industry with overall growth that increased only 13%. Dell's enterprise business produced revenue growth of 23% and 32% during fiscal 2005 and 2004,

respectively.

448. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

449. The 2005 10-K also misleadingly stated:

> Warranty — Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product sold and country in which Dell does business, but generally includes technical support, repair parts, labor, and a period ranging from 90 days to three years. Factors that affect Dell's warranty liability include the number of installed units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy Dell's warranty obligation. The anticipated rate of warranty claims is the primary factor impacting Dell's estimated warranty obligation. The other factors are relatively insignificant because the average remaining aggregate warranty period of the covered installed base is approximately 20 months, repair parts are generally already in stock or available at pre-determined prices, and labor rates are generally arranged at pre-established amounts with service providers. Warranty claims are relatively predictable based on historical experience of failure rates. Each quarter, Dell reevaluates its estimates to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

450. Defendants knew, or recklessly disregarded, that this statement was false and misleading when made because, as described above, Dell used the warranty and accrual process to manage Dell's reported financial performance.

451. The 2005 10-K contains the following false and misleading information concerning warranties:

	Fiscal Year Ended	
	January 28, 2005	January 30, 2004
	(in millions)	
Aggregate deferred revenue and warranty liability at beginning of period	$ 2,694	$ 2,042
Revenue deferred and costs accrued for new warranties	3,435	2,547
Service obligations honored	(1,176)	(983)
Amortization of deferred revenue	(1,359)	(912)
Aggregate deferred revenue and warranty liability at end of period	$ 3,594	$ 2,694
Current portion	$ 1,893	$ 1,333
Non-current portion	1,701	1,361
Aggregate deferred revenue and warranty liability at end of period	$ 3,594	$ 2,694

452. Defendants knew, or recklessly disregarded, that these statements were false and misleading when made because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

453. In commenting on Dell's controls, the 2005 10-K stated:

> Dell's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of Dell's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures, Dell's disclosure controls and procedures were effective.
>
> Management's Report on Internal Control Over Financial Reporting — Dell's management, under the supervision of Dell's Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act). Management evaluated the effectiveness of Dell's internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has concluded that Dell's internal control over financial reporting was effective as of January 28, 2005.
>
> Management's assessment of the effectiveness of Dell's internal control over financial reporting as of January 28, 2005, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their Report of Independent Registered Public Accounting Firm included in "Item 8 — Financial Statements and Supplementary Data."

454. The Defendants knew, or recklessly disregarded, that the foregoing statement regarding Dell's controls was materially false and misleading when made. As admitted by Dell

in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

455. The 2005 10-K also included signed certifications from Rollins and Schneider which stated:

> 1. I have reviewed this Annual Report on Form 10-K of Dell Inc.;
>
> 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
>
> 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
>
> 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
>
> > (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
> >
> > (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

456. The 2005 10-K also included signed certifications from Rollins and Schneider pursuant to 18 U.S.C. §1350 which certified: "that (a) Dell's Annual Report on Form 10-K for the fiscal year ended January 28, 2005, as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (b) information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Dell."

457. Rollins and Schneider knew, or recklessly disregarded, that the foregoing statement regarding the accuracy of the 2005 10-K and the effectiveness of Dell's controls, and the statements in the Defendants' 18 U.S.C. §1350 certifications were materially false and misleading when made because, as admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting

"adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting. Additionally, Rollins and Schneider's Section 1350 certifications were false because Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

458. The 2005 10-K also included a "clean audit" opinion from PwC certifying that:

> In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Dell Inc. and its subsidiaries at January 28, 2005 and January 30, 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. . . . We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
>
> Internal Control Over Financial Reporting
>
> Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A — Controls and Procedures, that the company maintained effective internal control over financial reporting as of January 28, 2005, based on criteria established in

> *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

459. PwC knew, or recklessly disregarded, that its statements in the 2005 10-K were materially false and misleading. As evidenced by Dell's restatement, the financial reports covered by PwC's foregoing "clean audit" opinion were materially false, required restating and, as cautioned by Dell, "should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." Moreover, as explained *infra* at Section X, PwC's audit of Dell failed to comply with GAAS, and its certification of the effectiveness of Dell's controls was false and misleading.

4. Schneider Reaffirms the Validity of Dell's Business Model

460. On March 3, 2005, Defendant Schneider was quoted in a story appearing in *BusinessWire* in which he stated, "Our business is exceptionally efficient, and our cash flow from operations is consistently outstanding."

461. Schneider knew, or recklessly disregarded, that the above statements concerning the success of Dell's business model were based on misstated financial numbers. Specifically,

Dell's reported results were based on misstated net revenue, operating income, net income, earnings per share and gross margin figures. As admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements."

N. First Quarter 2006 (For The Quarter Ended April 29, 2005)

1. First Quarter 2006 Earnings Release

462. On May 12, 2005, Dell issued an earnings release announcing its financial results for the quarter ended April 29, 2005 (the "Q1 2006 Earnings Release"). The Q1 2006 Earnings Release, published as an exhibit to a Form 8-K, contained the following false and misleading financial information relating to the Company's first quarter results:

	In Millions of Dollars (except per share data)
Net Revenue	$13,386
Operating Income	$1,174
Net Income	$934
Earnings Per Share (Diluted)	$.37
Gross Margin	$2,491
Stockholders' Equity	$5,624
Total Liabilities	$17,063

463. Commenting on the reported results, the Q1 2006 Earnings Release stated:

> Dell (NASDAQ:DELL) continued to grow significantly faster than the rest of the industry in all global regions, customer segments and product categories during its fiscal first-quarter 2006, and did so with strong profitability. The company also said it expects revenue growth to be higher in the second quarter.

> Revenue growth outside of the United States and in strategic products and services highlighted the first quarter. Sales outside the U.S. increased 21 percent year-over-year and grew to 42 percent of the company's total revenue. Worldwide revenue from storage systems increased 49 percent and sales of mobility products grew 22 percent from a year ago.
>
> For the quarter ended April 29, the company achieved total revenue of $13.4 billion, a 16-percent increase year-over-year, and net earnings of 37 cents per share, up 32 percent and a company record.

464. The Q1 2006 Earnings Release also included the following comments from Defendant Rollins:

> Our greatest strength in the quarter was precisely in the products, services and regions in which we're most focused on growing. . . . Customers worldwide are increasingly relying on us for their diversified information-technology requirements.

465. The Q1 2006 Earnings Release offered the following assessment of Dell's prospects: "Mr. Rollins said the company expects second-quarter fiscal 2006 to produce a revenue increase of 16 to 18 percent, to $13.6 to $13.8 billion, and earnings per share of 37 to 39 cents."

466. The Q1 2006 Earnings Release further stated: "In the first quarter, Dell's operating margin as a percent of revenue was 8.8 percent, up from 8.4 percent a year ago. The company generated $1.2 billion in cash flow from operations."

467. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued

financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

468. Commenting on Dell's international operations, the Q1 2006 Earnings Release stated:

> Revenue in Europe, the Middle East and Africa (EMEA) and in Asia-Pacific and Japan (APJ) grew 20 percent and 19 percent, respectively.
>
> * * *
>
> In APJ, overall shipments of Dell products increased 27 percent from a year ago, double the rest of the industry. Server volumes grew 38 percent, resulting in revenue growth of 17 percent. Shipments of notebook computers increased 41 percent, driving a 22-percent rise in revenue from mobility products. Storage revenue grew 36 percent. Sales of software and peripheral products were up 52 percent.

469. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

2. The 2006 Proxy

470. On May 31, 2005, Dell filed its proxy statement for 2006 with the SEC ("2006 Proxy"), in which the Company stated:

> The Board of Directors believes that adherence to sound corporate governance policies and practices is important in ensuring that Dell is governed and managed with the highest standards of responsibility, ethics and integrity and in the best interests of its stockholders. The Board maintains a set of Corporate Governance Principles, which provide an effective corporate governance framework for Dell and are intended to reflect a set of core values that provide the foundation for Dell's governance and management systems and its interactions with others.

471. Also, in two statements opposing shareholder proposals, the Company stated, "Dell believes that adherence to sound corporate governance policies and practices is important in ensuring that Dell is governed and managed with the highest standards of responsibility, ethics and integrity and in the best interests of its stockholders" and that "Dell's management fully supports all efforts to provide investors with the highest degree of integrity, quality and transparency in financial reporting and disclosures."

472. Defendants knew, or recklessly disregarded, that the above statements, concerning Dell's purported adherence to sound corporate governance policies and practices and Dell's management's commitment to provide investors with the highest degree of integrity, quality and transparency in financial reporting and disclosures, were false and misleading when made because, rather than operating the Company in the best interest of stockholders, Dell manipulated its accounting to compensate for earning shortfalls as described above. Moreover, these accounting manipulations were carried out by Dell to hide the true state of the Company from investors and so the Company's "quarterly performance adjustments could be met."

3. First Quarter 2006 Earnings Conference Call

473. On May 12, 2005, Dell held a conference call to discuss first quarter FY 2006 earnings ("Q1 2006 Earnings Call"). On the Q1 2006 Earnings Call, a Dell representative stated: "Our results reaffirm the strength of the model and our ability to deliver balanced growth and profitability across our customer segment, regions and product allowing us to continue to outperform the industry."

474. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's financial results and performance were false and misleading when made because Dell's reported results were based on misstated net revenue, operating income, net income, earnings per share and gross margin figures. As admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

4. First Quarter 2006 10-Q

475. On June 3, 2005, Dell filed its Form 10-Q for the quarter ended April 29, 2005 ("Q1 2006 10-Q"). The Q1 2006 10-Q repeated the false and misleading financial information set forth in the Company's Q1 2006 Earnings Release:

	In Millions of Dollars (except per share data)
Revenue	$13,386
Operating Income	$1,174
Net Income	$934
Earnings Per Share (Diluted)	$0.37
Gross Margin	$2,491
Total Stockholders' Equity	$5,624
Total Liabilities	$17,063

476.

477. The Q1 2006 10-Q also stated:

> We grew revenue across all regions and product categories. Revenue reached $13.4 billion for the first quarter of fiscal 2006, an increase of $1.8 billion or 16% from the same quarter last year. We produced 21% year-over-year growth in our international revenue. During the quarter, revenue outside the U.S. comprised 42% of consolidated revenue compared to 40% for the same period last year.

478. The Q1 2006 10-Q stated the following about Dell's reported gross margins:

> Despite a competitive pricing environment, Dell's gross margin as a percentage of revenue increased to 18.6% during the first quarter of fiscal 2006, compared to 18.0% during the first quarter of fiscal 2005. Our year-over-year improvement in gross margin is due to favorable pricing on certain commodity components, higher revenue to leverage fixed production costs and a favorable shift in product mix.

479. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

480. The Q1 2006 10-Q stated the following about Dell's adherence to GAAP:

> The accompanying unaudited condensed consolidated financial statements of Dell Inc. ("Dell") should be read in conjunction with the consolidated financial statements and notes thereto filed with the U.S. Securities and Exchange

> Commission ("SEC") in Dell's Annual Report on Form 10-K for the fiscal year ended January 28, 2005. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of Dell and its consolidated subsidiaries as of April 29, 2005 and January 28, 2005.

481. Defendants knew, or recklessly disregarded, that the Company's statements concerning Dell's adherence to GAAP were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." Moreover, Dell's restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

482. As for Dell's operations in Japan, the Q1 2006 10-Q stated, "Asia Pacific-Japan revenues increased 19% from a year ago. Over half of the segment's revenue growth came from Japan and China."

483. Defendants also knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

484. The Q1 2006 10-Q further stated:

NOTE 5 — AGGREGATE DEFERRED REVENUE AND WARRANTY LIABILITY
Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its basic limited warranty. Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Changes in Dell's aggregate deferred revenue and warranty liability are presented in the following table:

	Three Months Ended	
	April 29, 2005	April 30, 2004
	(in millions)	
Aggregate deferred revenue and warranty liability at beginning of period	$ 3,594	$ 2,694
Revenue deferred and costs accrued for new warranties	933	683
Service obligations honored	(339)	(275)
Amortization of deferred revenue	(427)	(288)
Aggregate deferred revenue and warranty liability at end of period	$ 3,761	$ 2,814

485. Defendants knew, or recklessly disregarded, that these statements were false and misleading when made because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

486. Dell also stated the following about the Company's controls:

> Dell's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of Dell's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures, Dell's disclosure controls and procedures were effective.

487. The Defendants knew, or recklessly disregarded, that the foregoing statements regarding the effectiveness of Dell's controls were materially false and misleading when made. As admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

488. The Q1 2006 10-Q also included signed certifications from Rollins and Schneider stating:

1. I have reviewed this Quarterly Report on Form 10-Q of Dell Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or

persons performing the equivalent functions):

> (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
>
> (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

489. Rollins and Schneider also filed certifications pursuant to 18 U.S.C. §1350, "that (a) Dell's Quarterly Report on Form 10-Q for the quarter ended April 29, 2005, as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (b) information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Dell."

490. Rollins and Schneider knew, or recklessly disregarded, that the statements contained in their signed certifications filed with the Q1 2006 10-Q were materially false and misleading when made because, as admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting. Additionally, Rollins and Schneider's Section 1350 certifications were false because Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain

accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

O. Second Quarter 2006 (For The Quarter Ended July 29, 2005)

1. Second Quarter 2006 Earnings Release

491. On August 11, 2005, Dell issued an earnings release announcing its financial results for the quarter ended July 29, 2005 (the "Q2 2006 Earnings Release"). The Q2 2006 Earnings Release, which was also filed as an exhibit to Form 8-K, contained the following false and misleading financial information relating to the Company's second quarter results:

	In Millions of Dollars (except per share data)
Net Revenue	13,428
Operating Income	$1,173
Pro Forma Net Income	$935
Net Income	$1,020
Pro Forma Earnings Per Share	$.38
Earnings Per Share (Diluted)	$.41
Gross Margin	$2,499
Stockholders' Equity	$5,509
Total Liabilities	$17,102

492. Commenting on the figures reported in Q2 2006 Earnings Release, the Company stated:

> Dell (NASDAQ:DELL) achieved record earnings in its fiscal 2006 second-quarter, as it exceeded industry shipment growth in a competitive pricing environment. Sales of storage systems, mobility products, enhanced services and software and peripherals were up strongly around the world.
>
> Dell's second quarter, which ended July 29, was highlighted by industry-record shipments of 9.1 million computer systems – including 2.7 million mobility products – and company-record revenue of more than $2 billion from software and peripheral products, including printers and displays.
>
> The company's second-quarter earnings were $1.02 billion, or 41 cents per share, up 32 percent from a year ago. . . . Dell revenue for the quarter was $13.4 billion, 15 percent higher than the same quarter last year.

493. The Q2 2006 Earnings Release also reported the following comments from Defendant Rollins:

> Our teams performed well in a dynamic market. Our growth in Q2 was characterized by share increases in every region. . . . While average selling prices were down more than we would have liked, we focused on balanced profitability and, in the process, delivered to our guidance for EPS.'

494. The Q2 2006 Earnings Release further stated:

> Dell's operating margin as a percent of revenue was 8.7 percent, up from 8.6 percent a year ago. The company generated more than $900 million in cash flow from operations. . . .
>
> Mr. Rollins said continued steady purchase rates by corporate customers, the seasonal impact of back-to-school buying in the consumer segment, and continued growth in markets outside of the United States will drive Dell's third-quarter business. The company expects Q3 revenue of $14.1 to $14.5 billion, and earnings per share of 39 to 41 cents. Dell plans to repurchase at least $1.2 billion in stock during the current fiscal quarter.

495. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon. Finally, the Defendants concealed that Dell's growth strategy depended on continuing the fraudulent activity which led to the misstatement of its financial reports.

496. Commenting on Dell's operations in Japan, the Q2 2006 Earnings Release stated, "Asia-Pacific and Japan (APJ) revenue grew 24 percent year-over-year."

497. Defendants also knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

2. Second Quarter 2006 Earnings Call

498. On August 11, 2005, Dell held a conference call to discuss second quarter FY 2006 earnings ("Q2 2006 Earnings Call"). On the Q2 2006 Earnings Call, Rollins stated: "[W]e misexecuted. The additional volumes we generated from our pricing actions were not enough to cover the resulting average selling price declines in excess of our original forecast."

499. This statement was materially false and misleading because Dell did not meet expectations in this reporting period because Defendants were forced to begin unwinding their scheme in order to avoid detection by the SEC, which had begun its investigation into the Company by this time.

3. Second Quarter 2006 10-Q

500. On September 1, 2005, Dell filed its Form 10-Q for the quarter ended July 29, 2005 ("Q2 2006 10-Q"). The Q2 2006 10-Q repeated the following false and misleading financial information set forth in the Company's Q2 2006 Earnings Release: